

Current Report

Cooperative Extension Service • Division of Agriculture • Oklahoma State University

Estimating 1986 Federal and State Income Taxes

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Plan Now to Avoid Tax Surprises Later

The House and Senate is currently trying to compromise the 1986 Tax Reform Act. Most provisions are effective in 1987. However, both the House and Senate bills eliminate investment tax credit effective January 1, 1986. Provisions of the new law may have drastic impacts on agriculture. Further information will be provided when the compromise bill becomes law. Adequate tax planning may be the difference between profit and loss. Many legal tax planning alternatives are available to help reduce the tax liability. This current report is designed to help you estimate Federal, State, Self-employment, and Alternative minimum taxes. An income tax checklist is provided to call attention to infrequent taxable events that may greatly effect your tax liability. Use this worksheet as a guide, for specific questions contact your local County Extension director, Area Farm Management Specialist, or Farm Management Association Fieldman.

Income Tax Check List for Farmers and Ranchers

1. Will taxable income be above or below average? (Check in late October or November.)
2. Should steps be taken to reduce fluctuation in taxable income?
3. If income will be 140 percent more than the average income of the last three years by at least \$3,000, consider income averaging.
4. Have you sold land or other assets or had debt forgiven? You may owe tax on the sale and the amount of debt forgiven.
5. Have you purchased a farm this taxable year? If yes, consider the importance of allocating costs to land, growing crops, depreciable improvements, dwelling, etc. Note: Would be helpful to consider this at the time of purchase.
6. Have you had any involuntary conversions this year? If yes, explore tax consequences of replacing with similar type property.
7. Have you sold easement or right-of-way this year?
8. Are you planning to sell land in the near future? If yes, consider the use of the installment method to reduce taxes and/or perhaps a trade.
9. Are you taking full advantage of capital gains? (Note: breeding cattle and horses have to be held 24 months, swine and sheep 12 months, and other capital assets acquired after June 22, 1984, 6 months.)
10. Will you be forced to recapture investment tax credit on property disposed of prior to the end of the required holding period, i.e. 3, 5, or 15 years?
11. Are you taking full advantage of the tax credits? (Earned income credit, Credit for the elderly, Political contribution credit, Child care credit and/or Residential energy credit).
12. Are payments of estimated tax required to avoid the underpayment penalty?
13. Should you consider an IRA or Keogh plan?
14. Should you consider the alternative method of paying social security tax?

15. Could a net operating loss or unused investment credit be carried back 3 years to get a tax refund for those years?
16. Will the expensing election reduce your taxable income?

1986 Income Tax Estimate Work Sheet

	(1) <u>Amounts To Date</u>	(2) <u>Estimated Rest of Year</u>	(3) <u>Estimated Years Total</u>
(01) Total Current Farm Sales	(01) _____	_____	_____
(02) Sale of Items Pur. for Resale	(02) _____	_____	_____
(03) Less Pur. Cost of Resale Items	(03) _____	_____	_____
(04) Taxable Inc. from Resale Items	(04) _____	_____	_____
(05) Taxable Gain from Capital Assets ^A	(05) _____	_____	_____
(06) Taxable Non-farm Income ^B	(06) _____	_____	_____
(07) Total Taxable Inc. Lines (1+4+5+6)	(07) _____	_____	_____
(08) Total Current Farm Expenses ^C	(08) _____	_____	_____
(09) Annual Depreciation Expense ^D	(09) _____	_____	_____
(10) Capital Losses ^E	(10) _____	_____	_____
(11) Total Deductions Lines (8+9+10)	(11) _____	_____	_____
(12) Adjusted Gross Income Line (7-11)	(12) _____	_____	_____
(13) Personal Exemptions \$1080 x No.	(13) _____	_____	_____
(14) Taxable Income Lines (12-13) ^F	(14) _____	_____	_____
(15) Estimated Income Tax	(15) _____	_____	_____
(16) Total Tax Credits	(16) _____	_____	_____
(17) Estimated Tax Due	(17) _____	_____	_____
(18) OK Income Tax Due ^G	(18) _____	_____	_____
(19) Self-Employment Tax ^H	(19) _____	_____	_____
(20) Alternative Minimum Tax ^I	(20) _____	_____	_____

FOOTNOTES

- A 40% of gain above losses. (100% of gain resulting from depreciation taken after 1/1/70 on purchased breeding cattle.)
- B Off-Farm employment, rent, oil income, etc.
- C Exclude capital purchases and cost of cattle purchased for resale.
- D Last year, plus depreciation on new items.
- E Only 50% of capital losses up to \$3,000 in excess of short term gains and capital gains may be deducted for 1983. (\$6,000 net losses = \$3,000 current deduction)
- F If your itemized deductions are greater than your zero bracket amounts (\$3,670 on a joint return) the excess should be deducted from your adjusted gross income before using the tax rate schedule.
- G Multiply line 14 by the appropriate value in the Oklahoma Tax rate schedule table 2.
- H Self-employment tax = (line 1 + line 4) - (line 8 + line 9) x 12.3%.
- I Alternative minimum tax = [(adjusted gross income₂ Line 12, + Tax Preference Items¹)₃ - Alternative minimum tax itemized deductions² - alternative minimum tax exemption³] * Tax rate⁴

1 Tax preference items include, capital gain deduction, accelerated depreciation on real property and leased personal property, amortization of pollution control facilities in excess of normal depreciation, percentage depletion in excess of adjusted basis, intangible drilling cost, dividends excluded by the dividend - received exclusion, interest excluded by the all savers certificate, bargain element on exercise of an incentive stock option, rapid writeoffs in excess of amount allowable had the expenditure been capitalized for circulation expenses, research and experimental costs, mining development and exploration expenses.

2 Alternative minimum tax itemized deductions include medical expenses in excess of 10% AGI, casualty losses in excess of 10% floor, charitable contributions, estate tax deductions, housing interest, other interest to the extent that net investment income is included in alternative minimum taxable income, allowable wagering losses.

3 Alternative minimum tax exemption -
Single filers = \$30,000
Joint return and surviving spouses = \$40,000
Married filing separately = \$20,000

4 Tax rate = 20%

TABLE 1. 1986 INCOME TAX RATE SCHEDULES

Unmarried Individual					Married Individuals filing Joint Returns and Surviving Spouse					Married Individuals filing Separate Returns					Heads of Households				
Taxable Income	But Not	Pay	% on	of the	Taxable Income	But Not	Pay	% on	of the	Taxable Income	But Not	Pay	% on	of the	Taxable Income	But Not	Pay	% on	of the
Over	Over		+ Excess	amount over-	Over	Over		+ Excess	amount over-	Over	Over		+ Excess	amount over-	Over	Over		+ Excess	amount over-
\$ 0-	\$2,480	\$ 0.00	0	.....	\$ 0-	\$ 3,670	\$ 0.00	0	.....	\$ 0-	\$ 1,835	\$ 0.00	0	.....	\$ 0-	\$ 2,480	\$ 0.00	0	.....
2,480-	3,670	0.00	11	\$ 2,480	3,670-	5,940	0.00	11	\$ 3,670	1,835-	2,970	0.00	11	\$ 1,835	2,480-	4,750	0.00	11	\$ 2,480
3,670-	4,750	130.90	12	3,670	5,940-	8,200	249.70	12	5,940	2,970-	4,100	124.85	12	2,970	4,750-	7,010	249.70	12	4,750
4,750-	7,010	260.50	14	4,750	8,200-	12,840	520.90	14	12,840	4,100-	6,420	260.45	14	4,100	7,010-	9,390	520.90	14	7,010
7,010-	9,170	576.90	15	7,010	12,840-	21,800	1,879.30	18	17,270	6,420-	8,635	585.25	16	6,420	9,390-	12,730	854.10	17	9,390
9,170-	11,650	900.90	18	9,170	21,800-	26,550	2,694.70	22	21,800	8,635-	10,900	939.65	18	8,635	12,730-	16,190	1,421.90	18	12,730
11,650-	13,920	1,297.70	18	11,650	26,550-	32,270	3,739.70	25	26,550	10,900-	13,275	1,347.35	22	10,900	16,190-	19,640	2,044.70	20	16,190
13,920-	16,190	1,706.30	20	13,920	32,270-	37,980	5,169.70	28	32,270	13,275-	16,135	1,869.85	25	13,275	19,640-	25,360	4,107.50	28	19,640
16,190-	19,640	2,160.30	23	16,190	37,980-	49,420	6,766.50	33	37,980	16,135-	18,990	2,584.85	28	16,135	25,360-	31,080	5,709.10	32	25,360
19,640-	25,360	2,953.80	26	19,640	49,420-	64,750	10,543.70	38	49,420	18,990-	24,710	3,384.25	33	18,990	31,080-	38,800	7,539.50	35	31,080
25,360-	31,080	4,441.00	30	25,360	64,750-	92,370	16,369.10	42	64,750	24,710-	32,375	5,271.85	38	24,710	38,800-	48,240	11,543.50	42	38,800
31,080-	38,800	6,157.00	34	31,080	92,370-	118,050	27,869.50	45	92,370	32,375-	46,185	8,184.55	42	32,375	48,240-	65,390	18,746.50	45	48,240
38,800-	44,780	8,101.80	38	38,800	118,050-	175,250	39,525.50	49	118,050	46,185-	59,025	11,845.55	45	46,185	65,390-	88,270	29,042.50	48	65,390
44,780-	59,670	11,134.20	42	44,780	175,250-	.....	67,553.50	50	175,250	59,025-	87,625	19,762.75	49	59,025	88,270-	116,870	42,770.50	50	88,270
59,670-	88,270	17,388.00	48	59,670	.....	.....	.....	.....	.....	87,625-	.....	33,776.75	50	87,625	116,870-	.....	42,770.50	50	116,870
88,270-	.....	31,116.00	50	88,270	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....

TABLE 2. 1986 OKLAHOMA TAX RATE SCHEDULE

METHOD 1

Schedule M
Married Filing Jointly and
Head of Household

Schedule N
Single or Married
Filing Separately

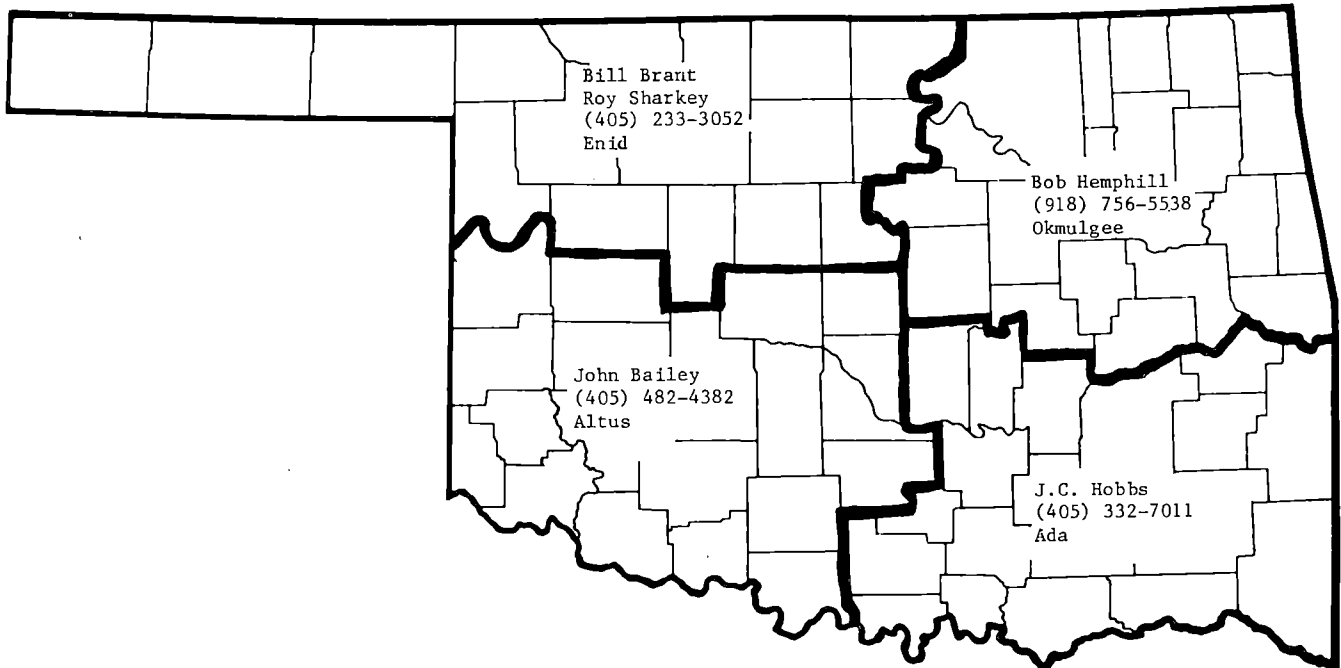
IF TAXABLE INCOME IS:

\$ -0--	\$ 2,000	Pay 1/2 of 1% of taxable income.
2,000 -	5,000	Pay \$ 10.00 + 1% over \$ 2,000
5,000 -	7,500	Pay 40.00 + 2% over 5,000
7,500 -	10,000	Pay 90.00 + 3% over 7,500
10,000 -	12,500	Pay 165.00 + 4% over 10,000
12,500 -	15,000	Pay 265.00 + 5% over 12,500
15,000	and over	Pay 390.00 + 6 ^A over 15,000

IF TAXABLE INCOME IS:

\$ -0 -	\$ 1,000	Pay 1/2 of 1% of taxable income.
1,000 -	2,500	Pay \$ 5.00 + 1% over \$ 1,000
2,500 -	3,700	Pay \$ 20.00 + 2% over \$ 2,500
3,700 -	5,000	Pay 45.00 + 3% over 3,750
5,000 -	6,250	Pay 82.50 + 4% over 5,000
6,250 -	7,500	Pay 132.50 + 5% over 6,250
7,500	and over	Pay 195.00 + 6% over 7,500

OKLAHOMA FARM MANAGEMENT ASSOCIATIONS



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